
**MUNICIPAL FINANCING
CORPORATION OF
SASKATCHEWAN**

1999 ANNUAL REPORT



LETTER OF TRANSMITTAL

Regina, Saskatchewan
February 21, 2000

To Her Honour
The Honourable Lynda M. Haverstock
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of the Municipal Financing Corporation of Saskatchewan for the year ended December 31, 1999, in accordance with **The Municipal Financing Corporation Act**. The financial statements included in this Annual Report are in the form approved by the Treasury Board and have been duly certified by the Corporation's auditors.

I have the honour to be, Madam,

Your obedient servant,

A handwritten signature in black ink, appearing to be 'Eric Cline', with a large, stylized flourish extending to the right.

Eric Cline
Minister of Finance
and Minister Responsible
Municipal Financing Corporation of Saskatchewan

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

BOARD OF DIRECTORS

Honourable Eric Cline
Chairperson

Honourable Clay Serby

OFFICERS

Mr. Rae Haverstock
General Manager

Ms. Margaret Johannsson
Assistant General Manager

Mr. Cliff Baylak
Treasurer

Ms. Dawn Stanger
Secretary

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

HISTORY AND CURRENT HIGHLIGHTS - 1999

The Municipal Financing Corporation of Saskatchewan (the Corporation) was established to assist in making capital funds available for the financing of school, hospital and other essential construction and local improvement projects in cities, towns, villages and rural areas throughout the Province. The Corporation may borrow directly from private lending institutions or through the Department of Finance. The Corporation uses the funds borrowed to purchase a portion of the approved debentures sold each year by Saskatchewan local governments.

During 1999, the Corporation participated in the financing of seven projects in Saskatchewan by purchasing \$1.890 million of municipal debentures. Six of the debentures purchased were to finance sewer and water projects. One debenture purchased was to finance a community hall. The Corporation's debenture holdings at December 31, 1999 totalled \$33 million, down \$8 million from the total at December 31, 1998. The Corporation recorded a net loss of \$1.4 million for 1999 compared to a net loss of \$0.7 million for 1998.

The Municipal Financing Corporation of Saskatchewan is administered by a Board of Directors through the use of staff and facilities provided by the Department of Finance and Crown Investments Corporation of Saskatchewan (CIC). The Corporation incurred \$50 thousand of administrative expenses in 1999. These expenses were the reimbursement of the costs to CIC of providing administrative services, audit fees and new software. The cost of the software was \$25 thousand. The Municipal Financing Corporation of Saskatchewan made no payments to the Department of Finance for administrative charges. The Directors do not receive fees and, with the exception of interest paid on borrowed funds, the Corporation had no other expenses in the current year.

A table showing results of operations for 1999, as compared to the previous year, as well as a detailed listing of debentures purchased in the current year is presented on page 4.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

**COMPARATIVE TABLE OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31**

	<u>1999</u>	<u>1998</u>
	(thousands of dollars)	
Amount of debentures approved by the Corporation (net of subsequent reductions)	\$ 2,305	\$ 11,226
Prior year's purchase commitments carried forward	_____ -	_____ -
Total purchase commitments for the year	2,305	11,226
Purchases completed	_____ 1,890	_____ (11,226)
Purchase commitments outstanding at the year end	<u>\$ 415</u>	<u>\$ -</u>

DEBENTURES PURCHASED IN 1999

(thousands of dollars)

Town of Wawota	\$ 1,000
Village of Bulyea	68
Village of Lucky Lake	143
Village of Clavet	61
Town of Indian Head	231
Town of Fort Qu'Appelle	300
Town of Balgonie	_____ 87
	<u>\$ 1,890</u>

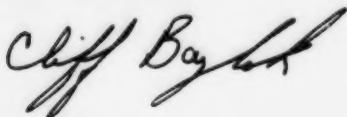
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management has prepared the financial statements of the Municipal Financing Corporation of Saskatchewan in accordance with generally accepted accounting principles applied on a consistent basis with that of the previous year. The financial data included elsewhere in this report is consistent with the financial statements and the underlying information from which these financial statements were prepared.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfill this responsibility, the Corporation maintains appropriate systems of internal controls, policies and procedures to provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Corporation.

E.J.C. Dudley & Co., the Corporation's external auditors, have reviewed the systems of internal control and audited the financial statements in accordance with generally accepted auditing standards to enable them to express their opinion on the financial statements. Their report appears on the following page.

The financial statements have been examined and approved by the Board of Directors.

A handwritten signature in black ink, appearing to read "Cliff Baylak", with a stylized flourish at the end.

Cliff Baylak
Treasurer

February 1, 2000

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the Municipal Financing Corporation of Saskatchewan as at December 31, 1999 and the statements of loss and reinvested earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Regina, Canada
February 1, 2000

EJC Buckley & Co.

Chartered Accountants

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF FINANCIAL POSITION

As at December 31

	<u>1999</u>	<u>1998</u>
	(thousands of dollars)	
ASSETS		
Current Assets		
Cash and short-term investments	\$ 76,201	\$ 70,476
Interest receivable	1,812	2,010
Municipal debentures receivable within one year	<u>6,639</u>	<u>9,779</u>
	84,652	82,265
Investments in municipal debentures (Note 3)	<u>26,824</u>	<u>31,573</u>
	<u><u>\$ 111,476</u></u>	<u><u>\$ 113,838</u></u>
LIABILITIES AND PROVINCE'S EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 3,023	\$ 1,554
Debentures payable within one year	<u>28,916</u>	<u>1,000</u>
	31,939	2,554
Long-term debentures payable (Note 5)	62,075	83,167
Province of Saskatchewan's Equity		
Reinvested earnings	<u>17,462</u>	<u>28,117</u>
	<u><u>\$ 111,476</u></u>	<u><u>\$ 113,838</u></u>

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF LOSS AND REINVESTED EARNINGS

For the Year Ended December 31

	<u>1999</u>	<u>1998</u>
	(thousands of dollars)	
Revenue		
Investment income - municipal debentures	\$ 3,667	\$ 4,459
Investment income - short-term investments and cash balances	<u>3,496</u>	<u>3,407</u>
	<u>7,163</u>	<u>7,866</u>
Expenses		
Interest on long-term debt	8,495	8,559
Administration	<u>50</u>	<u>24</u>
	<u>8,545</u>	<u>8,583</u>
Net (loss)	(1,382)	(717)
Reinvested earnings, beginning of year	28,117	28,834
Premium on exchange of long-term debentures payable (Note 4)	<u>(9,273)</u>	<u>-</u>
Reinvested earnings, end of year	<u>\$ 17,462</u>	<u>\$ 28,117</u>

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF CASH FLOWS

For the Year Ended December 31

	<u>1999</u>	<u>1998</u>
	(thousands of dollars)	
Operating Activities		
Net (loss)	\$ (1,382)	\$ (717)
Net change in non-cash working capital balances related to operations:		
Decrease (increase) in interest receivable	198	(118)
Increase in accounts payable and accrued liabilities	<u>20</u>	<u>-</u>
Cash (used in) operating activities	<u>(1,164)</u>	<u>(835)</u>
Investing Activities		
Purchase of municipal debentures	(1,890)	(11,229)
Amortization of discounts and premiums	(3)	(3)
Proceeds from maturing municipal debentures	<u>9,782</u>	<u>13,840</u>
Cash provided by investing activities	<u>7,889</u>	<u>2,608</u>
Financing Activities		
Repayment of long-term debt	<u>(1,000)</u>	<u>-</u>
Cash (used in) financing activities	<u>(1,000)</u>	<u>-</u>
Net increase in cash during the year	5,725	1,773
Cash and short-term investments, beginning of year	<u>70,476</u>	<u>68,703</u>
Cash and short-term investments, end of year	<u>\$ 76,201</u>	<u>\$ 70,476</u>

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 1999

1. Significant Accounting Policies

The Corporation's accounting policies are in accordance with generally accepted accounting principles. The following are considered to be significant:

Short-term Investments

Short-term investments are carried at cost.

Investments in Municipal Debentures

Investments in municipal debentures are carried at amortized cost. The Corporation often purchases debentures at a premium or discount where the interest rate yield required by the Corporation varies from the coupon interest rate offered by the local governments. Premiums and discounts in excess of \$250 on the investment's purchase date are amortized to income using the straight-line method over the life of the investment. In this way, effective income derived from each debenture is adjusted to equal the Corporation's required yield for that debenture to its maturity.

Market Value of Short-Term Financial Instruments

For certain of the Corporation's financial instruments, the carrying amounts approximate fair value due to the immediate or short-term maturity of these financial instruments. These short-term financial instruments include cash and short-term investments, interest receivable, municipal debentures receivable within one year, accounts payable and accrued liabilities, and debentures payable within one year.

2. Status of the Corporation

The Municipal Financing Corporation of Saskatchewan was established in 1969 pursuant to the provisions of **The Municipal Financing Corporation Act** and continued under **The Municipal Financing Corporation Act, 1983**. The Corporation was established to assist municipalities in financing their capital requirements.

The Corporation is a Provincial Crown corporation and is therefore not subject to Federal or Provincial income tax but is subject to Provincial corporation capital tax.

3. Investments in Municipal Debentures

The Corporation invests in fixed rate debentures issued by schools, hospitals, cities, towns, villages and rural municipalities throughout the Province of Saskatchewan. The Corporation's policy is to limit its purchase of debentures to no more than 50% of the total authorized borrowings of a capital project, except for water and sewer projects which can be up to 100% of the authorized borrowings. All issues of debentures purchased by the Corporation must be approved by the Saskatchewan Municipal Board.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 1999

3. Investments in Municipal Debentures (continued)

The Corporation has an investment in 77 (1998 - 99) different debentures issued by 55 (1998 - 69) different issuers with a weighted average yield of 9.146% (1998 - 9.701%) and maturity dates ranging from 2000 through 2019.

The carrying amount invested by issuer category is as follows:

	<u>1999</u>	<u>1998</u>
	(thousands of dollars)	
Schools	\$ 6,403	\$ 12,928
Hospitals	148	311
Cities	21,500	23,840
Towns	4,950	3,991
Villages	<u>462</u>	<u>282</u>
	33,463	41,352
Receivable within one year	<u>6,639</u>	<u>9,779</u>
	<u>\$ 26,824</u>	<u>\$ 31,573</u>

The fair value of these debentures as determined by an independent appraiser is \$34,888 (1998 - \$46,972). This fair value is determined by discounting the future contractual cash flows under current financial arrangements, which represent investment rates presently available to the Corporation for investments with similar terms and remaining maturity, less costs of settlement.

4. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan. Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year end, are as follows:

	<u>1999</u>	<u>1998</u>
	(thousands of dollars)	
Interest on long-term debt	\$ 8,173	\$ 8,237
Administration expense	20	20

Other amounts due to related parties and the terms of settlement are described separately in the financial statements and the notes thereto.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 1999

4. Related Party Transactions (continued)

On December 31, 1999, the Corporation exchanged long-term debentures payable with the General Revenue Fund, a related party by virtue of common control. The Corporation transferred debentures payable having a face value of \$79,667,000 with accrued interest payable of \$1,527,000 and a fair value of \$100,787,000 in exchange for debentures payable having a face value of \$87,491,000 with accrued interest payable of \$2,973,000 and a fair value of \$100,784,000. The difference in fair value of \$3,000 was paid in cash by the Corporation early in 2000.

The net difference between face value, including accrued interest payable, and fair value of the debentures exchanged has been charged to reinvested earnings. Fair value was determined by discounting the future contractual cash flows at borrowing rates presently available to the Corporation, less costs of settlement.

5. Long-term Debentures Payable

<u>Maturity Date</u>	<u>Rate (%)</u>	<u>1999</u>	<u>1998</u>
(thousands of dollars)			
Teachers Superannuation Fund			
June 17, 1999	12.000	-	1,000
Province of Saskatchewan - Municipal Employees Superannuation Fund			
June 17, 2000	12.000	500	500
Saskatchewan Telecommunication Superannuation Fund			
June 17, 2000	12.000	500	500
Roytor & Co.			
December 15, 2002	12.875	2,500	2,500
Province of Saskatchewan			
April 3, 2000*	13.390	10,336	-
May 2, 2000*	13.460	11,814	-
October 1, 2000*	12.500	5,766	-
April 1, 2001*	13.660	6,175	-
May 1, 2001*	13.690	13,971	-
August 4, 2001*	15.310	8,064	-
February 1, 2002*	15.500	5,219	-
March 1, 2002*	16.100	1,571	-
April 1, 2002*	15.120	5,000	-
October 1, 2002*	14.160	4,500	-
March 1, 2003*	12.160	5,684	-
November 9, 2004*	12.960	9,391	-

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 1999

5. Long-term Debentures Payable (continued)

<u>Maturity Date</u>	<u>Rate (%)</u>	<u>1999</u>	<u>1998</u>
(thousands of dollars)			
May 10, 2009*	10.170	-	24,053
June 5, 2009*	10.010	-	4,600
March 1, 2010*	9.780	-	10,855
April 2, 2010*	10.360	-	16,271
May 1, 2011*	9.810	-	23,888
		90,991	84,167
Repayment required within one year		28,916	1,000
Net long-term debentures payable		<u>\$ 62,075</u>	<u>\$ 83,167</u>

* Certain issues owing to the Province of Saskatchewan in the amount of \$87.491 million (1998 - \$79.667 million) are subject to redemption by the Province on six months notice.

Principal payments due on long-term debt for the next five years are as follows (in thousands of dollars):

2000	-	\$	28,916
2001	-	\$	28,210
2002	-	\$	18,790
2003	-	\$	5,684
2004	-	\$	9,391

The fair value of long-term debentures payable, before the repayment required within one year, is \$101,777 (1998 - \$115,786) and is determined by discounting the future contractual cash flows under current financial arrangements, which represent borrowing rates presently available to the Corporation for debt with similar terms and remaining maturity, less costs of settlement.

During the year, the Corporation exchanged debentures payable with a related party. See Note 4.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 1999

6. Interest Rate Risk

The corporation is susceptible to interest rate risk as a result of a mismatch between interest rates on interest bearing investments and the interest rates on the long-term debt to fund these investments.

7. Commitments

Prior to December 31, 1999 the Corporation had approved the purchase of debentures from certain local governments of which \$415 thousand were not purchased before year end.

8. Operations Budget

	Budget 1999
	(\$ 000's)
Revenue	
Investment income - municipal debentures	\$ 3,621
Investment income - short-term investments and cash balances	<u>3,468</u>
	<u>7,089</u>
Expenses	
Interest on long-term debt	8,495
Administration	<u>50</u>
	<u>8,545</u>
Net loss	<u>\$ (1,456)</u>

9. Uncertainty Due to The Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.